59 DECLASSIFIED LIBYA

Department of State

EXCISE TELEGRAM

25

CONFIDENTIAL 924

PAGE 01 TRIPOLI 01086 230857Z

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PORTIONS DENIED AS INDICATED

C O N F I D E N T I A L TRIPOLI 1086
LIMDIS
C O R R E C T E D C O P Y FOR TEXT

DEPT PASS AS DESIRED

SUBJ: OCCIDENTAL OIL

REF: STATE 74423; TRIPOLI 1076

1. OCCIDENTAL REPORTS IT RECEIVED ORDER LATE MAY 21 FROM MINISTRY PETROLEUM AND MINERALS FOR ADDITIONAL CUTBACK IN OIL PRODUCTION OF 300,000 B/D, BRINGING TOTAL RESTRICTION TO 400,000 B/D. CUTBACKS EQUAL ABOUT ONE-HALF OF OXY'S AVERAGE PRODUCTION FOR APRIL. ORDER REQUIRES COMPLIANCE BY MAY 25 AND STATES MINISTRY WILL DISCUSS REMEDIAL MEASURES AFTER REDUCTION IS IN EFFECT. NO DETAILED JUSTIFICATION GIVEN FOR ORDER, WHICH SPECIFIES MAXIMUM FLOW RATES BY FIELD OR BY WELL. MINISTRY PETROLEUM U/S QABLAAWI, WHO SIGNED ORDER AND WHO IS IN CHARGE DURING CURRENT ABSENCE MINPET MABRUUK, IS SCHEDULED TO MEET WITH OXY REPS MAY 23.

2. OXY STATES IT HAS CONTINUED TO FULFILL ITS SALES CONTRACTS UNDER EARLIER 100,000 B/D CUTBACK FOR ITS 103-A FIELD, BY STEPPING UP PRODUCTION FROM 103-C AND D AND AUGILA FIELDS, AS WELL AS BY PURCHASING CRUDE FOR ITS OWN REFINERIES. ENFORCEMENT OF NEW CUTBACK WILL REQUIRE INVOKING FORCE MAJEURE CLAUSES IN ITS SALES CONTRACTS.

3. MINISTRY OFFICIALS, INCLUDING QABLAAWI, WHO HAVE BEEN

CONFIDENTIAL

TRIPOLI 1086 5-2270

DECLASSIFIED

Department of State **TELEGRAM**

CONFIDENTIAL

PAGE 02 TRIPOL 01086 230857Z

APPROACHED INFORMALLY BY OXY'S LIBYAN EMPLOYEES, INSIST THAT CUTBACK IS UNRELATED TO POSTED PRICE ISSUE, AS OXY HAD ASSUMED, BUT THAT DECISION IS BASED UPON TECHNICAL EVALUATION OF DELETERIOUS EFFECT ON RECOVERABLE RESERVES OF OXY'S PRESENT PRODUCTION RATES. OXY IS UNCERTAIN ABOUT WHICH INTERPRETATION OF REASON FOR DECISION IT FINDS MORE DISTURBING. IF DECISION IS BASED UPON MINISTRY'S TECHNICAL JUDGMENT, THEN COMPANY IS CONFRONTED WITH ANOTHER ISSUE AS SERIOUS AS POSTED PRICE PROBLEM AND EVEN MORE URGENT. IN ANY EVENT, CUTBACK OF THIS SIZE SERIOUSLY AFFECTS COMPANY'S INVESTMENT-EARNINGS RATIO, DISRUPTS ITS MARKETING SYSTEM AND RESTRICTS ITS CAPACITY TO BE RESPONSIVE TO PRICE DEMANDS.

4. WHILE HOPING TO AVOID NEW CUTBACK BY PRESENTING FULL TECHNICAL JUSTIFICATION OF ITS PRODUCTION PROGRAM TO GABLAAWI AND MINISTRY TECHNICIANS MAY 23, OXY IS TAKING ORDER SERIOUSLY. IT IS COMPLETING CONTINGENCY PLANS FOR REDUCTION IN STAFF, HALTING WORK ON GAS REINJECTION AND LIQUIDS EXTRACTION SYSTEM, AND SUSPENSION OF AJDABIYAH WATER AND KUFRA AGRICULTURAL PROJECTS. IT FINANCES AND MANAGES FOR LARG.

5. [redacted] B1

6. COMMENT. ON BASIS OF OXY'S ALLEGED FAILURE TO FOLLOW GOOD OIL FIELD PRACTICES IN PAST (SEE OSTRANDER-PLACKE MEMCON, 10/15/69, AVAILABLE TO AF/N AND E/ORF/FSE), MINISTRY MIGHT HAVE ORDERED 100,000 B/D CUTBACK TO FORCE

CONFIDENTIAL

DECLASSIFIED

Department of State **TELEGRAM**

CONFIDENTIAL

PAGE 03 TRIPOLI 01086 230857Z

COMPANY TO SHOW THAT ITS OPERATIONS ARE TECHNICALLY SOUND. HOWEVER, CUTTING PRODUCTION IN HALF IS UNNECESSARY TO THIS PURPOSE AND IS WELL BEYOND ANY PRODUCTION RESTRICTION LIKELY TO BE TECHNICALLY DEFENSIBLE. EMBASSY CONCLUDES SECOND PRODUCTION CUT IS INTENDED TO FORCE POSTED PRICE CONCESSION AND NOTES THERE ARE CREDIBLE REPORTS THAT PRODUCTION RESTRICTION ALSO IS ABOUT TO BE IMPOSED UPON ESSO. MINISTRY COULD BE EXPECTED TO DENY THIS CONNECTION BECAUSE ONLY LEGITIMATE BASIS FOR CUTBACK IS TECHNICAL ONE. LARG SEEMS TO BE APPLYING INCREASING PRESSURE FOR PRICE SETTLEMENT ALONG LINES SUGGESTED TRIPOLI 1003, PARA 5. SUMMARY OF OTHER DEVELOPMENTS CONCERNING POSTED PRICE ISSUE FOLLOWS SEPTEL.
GP-4
PALMER

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